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*Susanne R. Young,*

April 12, 2021

Honorable Jane Kitchel  
Chair, Senate Committee on Appropriations

Vermont State House  
109 State Street  
Montpelier, VT 05602

Dear Senator Kitchel,

I write in regard to *H.439, an act relating to making appropriations for the support of state government*, as passed by the House on March 26, 2021. The Administration appreciates the good work of the House despite the challenging circumstances and finds many similarities between the Governor's recommended budget and the House passed version. We do have some concerns with the House approach which we highlight below.

One major concern is the handling of \$1 billion of *American Rescue Plan Act – Coronavirus State Fiscal Recovery Fund (hereinafter ARPA-State Recovery Funds)* funds anticipated later this spring. We share the House's goal of putting these funds to use. However, we believe the appropriation and transfer in H.439 of over \$350 million of ARPA funds is premature.

On April 6, the Governor released a policy proposal for use of the \$1 billion of ARPA-State Recovery Funds, with a spending plan for FY 22 through FY 24 (see Governor Scott's Proposed Investment of American Recovery Plan Funds attachments). The spending of these funds currently under consideration in the Legislature are scattered throughout several bills pending in the House and Senate. There is not yet a cohesive framework for the expenditures although we appreciate the House's offered framework in section B.1100 of H. 439.

We strongly believe that agreement between the House, Senate and the Administration on what we should spend this money on should come before the funds are expended in a piecemeal fashion. The ARPA-State Recovery Funds are, as advertised, funds to assist the State with



recovery from this pandemic that will make a difference well into the future. How this money is spent must be done in a transparent way, preferably through a single spending bill so every penny spent is understood by Vermonters.

Second, the one-time money should be spent on tangible items—on infrastructure that the State, cities and towns have long been unable to afford to build out as broadly and effectively as possible. The Governor’s proposal includes spending on housing, broadband, water & sewer infrastructure, climate change initiatives and economic recovery. All these investments, if planned and supported wisely, will be something we can all point to as the silver-lining of this pandemic.

Finally, the work we can complete, in partnership with our local communities will be transformative for every Vermonter. Access to broadband will support remote learning and working, enhanced telemedicine opportunities, aging in place, civic engagement as well as provide a foundation for digital equity. Adequate community shelters for the homeless, affordable homes for low-income and working Vermonters, and an expanded housing stock will bring needed relief to those without and provide stability and supports as we struggle to grow our workforce and strengthen our economy. Cleaner water and a healthier climate benefit every Vermonter.

The Administration is heartened by the positive feedback from many legislators already and look forward to working towards building a budget and plan for the ARPA-State Recovery Funds. In the meantime, many of the one-time expenditures of ARPA-State Recovery Funds contemplated in this and other bills can be supported with general fund surplus that has grown since the Governor submitted his budget proposal.

In January, the Governor included an unprecedented \$210 million of one-time recovery initiatives in his proposed FY22 budget. After its introduction, an estimated additional \$90 million in one-time General Funds became available, primarily through extensions of the enhanced Federal Medical Assistance Percentage (FMAP). And today, surpluses at year end are conservatively estimated to be much higher than the January 2021 forecast. There is also remaining Coronavirus Relief Funds that can be used to support proposals in H.439. Other proposals that advance the shared goals for use of the funds could be moved to the separate budget for ARPA-State Recovery Funds, as recommended.

**Section C.101 – \$150 Million Surplus to Pension Reserve:**

To the above point, the House and Senate, in H.315 and H.439 have identified every opportunity to “free up” general fund dollars and has accumulated \$150 million in a temporary reserve to support pension reform. A reserve of this size may no longer be needed as pension reform is on hold for another fiscal year as recently announced by the Speaker. The Governor will support some one-time use of surplus so long as it is accompanied by structural reforms to the plans that will make them more sustainable and more affordable for Vermont taxpayers.

Now that the legislature has deferred reform, other than governance changes, until next fiscal year, the growing surplus in this fiscal year is available to support the initiatives in the Governor’s proposed budget without tapping into these important ARPA-State Recovery Funds, while leaving some part of the remaining surplus in reserve for pension reform.



**Section E.100.2 – Clean Water Fund Removal of a Dedicated Source of Funding:**

Additionally, another area of deep concern is the House passed budget proposes another switch up in funding that removes the Meals and Rooms (M&R) tax contribution to the Clean Water Fund (CWF) for the next four fiscal years and adds \$100 million of one-time ARPA-State Recovery Funds to the CWF. Most will recall that the CWF was a critical part of the implementation of the Clean Water Act of 2015, and this clearly negates the deal that was struck.

This Administration was charged with identifying dedicated sources of revenue to support the fund and the Meals and Rooms tax, bottle deposit escheats and a surcharge on property transfer tax returns were established as sources in Act 76 of 2019 when the bridge funding plan developed by the State Treasurer expired. These dedicated sources of funding are consistent and reliable streams of revenue around which multi-year projects and grant programs are administered. The House proposal does not invest more in water quality but only displaces base funding with one-time federal funds for no apparent reason, except to again free up general fund for other uses.

Further, the House has assumed that all activities currently paid for with the Meals and Rooms tax allocation to the Clean Water Fund will be eligible uses of the ARPA-State Recovery Funds. There are a number of instances where it is extremely unlikely that this will be the case. Examples include where the Clean Water Fund is used as a mandatory, non-federal match for other existing federal programs and on-going education and outreach efforts necessary to build and sustain broad support for clean water work. This is why it was so important to identify non-federal sources of revenue for the fund at its inception. This single step will undo the hard work of so many with respect to achieving our phosphorous reduction goals.

The Administration has identified the following policy issues in the House passed version of *H.439* for your Committee's consideration:

**Section B.1101 – Appropriation of ARPA-State Recovery Funds for IT Modernization:**

The framework in the House proposal set aside \$100 million in ARPA-State Recovery Funds, instead of the one-time surplus used in the Governor's recommend, to modernize aged and inefficient IT systems to better serve Vermonters. These IT projects are complex, both in their build-out and their funding, and the flexibility provided by general funds can be critical to their affordability and their success. As just one example, the Bright Futures Information System (BFIS) and the Integrated Eligibility and Enrollment (IE&E) projects recommended for funding by the Administration in the Agency of Human Services are ongoing projects which are eligible for federal matching funds. As a result, the State portion of these projects needs to be comprised of State funds, because federal funds cannot be used to draw down additional federal funds.

***Section B.1101(b):***

This subsection makes appropriations for the specified projects contingent on approval from the Joint Information Technology Oversight Committee (JITOC). This is granular oversight of Executive Branch operations and redundant to the statutory charge of the Secretary of the Agency of Digital Services. We request subsection (b) be struck from the bill.

**Section B.108 – Department of Human Resources Classification Modernization Project:**

The House Appropriations Committee chose not to fund this project in the budget because they wanted input from the policy committee, House Government Operations. This project is the next step to implementation of the employee classification study mandated by the Legislature in Act 58 of 2015 and both the Administration and presumably the Legislature, still support this work. It is a \$125,000 base expenditure. We hope the Department of Human Resources can work with your committee, or the Senate Government Operations Committee, to include this in the budget. The House Government Operations did not have time to review it before H.439 passed the House.

**Section E.236 – Powers and Duties of the Board of Liquor and Lottery:**

The House passed budget strikes the Governor’s recommended changes to this section of statute, which would expand the state lottery to online platforms and legalize sports betting. These expanded lottery activities would generate \$4 million in revenue and are still supported by the Governor. We hope the Senate will reconsider the House’s policy decision. Many states around Vermont are expanding their lottery programs and legalizing sport wagering. This is a foregone opportunity for the state to use the revenue anticipated from these initiatives to support enhanced childcare subsidies.

**Section B.801 – New Worker, Relocation Grant Program:**

This is another Governor recommended initiative that the House chose not to fund. This program had its origin in the Senate Economic Development Committee and the program has proven to be successful in attracting people to Vermont, which is a critical, long-term economic development strategy. We are the third oldest state in the country and improving our demographic trend is critical to economic growth and is cited by the credit rating agencies as putting our bond rating at risk along with our unfunded liabilities. One anticipated effect of this pandemic is that it will make the world smaller by expanding and normalizing remote work arrangements. Where someone lives will be less dependent on one’s job. We should build on the momentum that reflects, at least anecdotally and through the property transfer tax, a growing interest in living in Vermont. Funding for this program should be reinstated and we request the Senate’s support.

**Section E.317 – Foster Care Reimbursement Rates:**

The Department for Children and Families, Family Services Division does not have the resources to conduct this study during the pandemic. On top of the challenges of this health crisis, the Division is now implementing the federal Family First Prevention Services Act, what has hard deadlines of October 1, 2021 and July 1, 2022. The study should be removed, or at a minimum, extended to a time in the future when the Department has the time to devote to it.

**Section E.337 – Community High School of Vermont; Two Year Funding:**

The cost of operating the Community High School of Vermont is an ongoing educational expense. The Governor’s Recommended Budget proposed moving this cost from the General Fund to the Education Fund, where it would remain a base funding item. However, the House passed budget proposes to use one-time funding for the next two years and presumably spend the base capacity this creates in the interim. Not only do we question the



eligibility of ESSR funds for the Community High School, but in two years, when federal funding is no longer available, we will be discussing how to pay for these important educational services. This is another instance where one-time funds have been used to replace ongoing base funding.

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Thank you for your review of our concerns. We appreciate the continued collaboration in navigating the many obstacles that have materialized over the last year and your continued flexibility as developments require.

Sincerely,

Susanne Young  
Secretary, Agency of Administration

**Attachments:** Governor Scott's Proposed Investment of American Recovery Plan Funds  
Governor Scott's Proposed Investment of American Recovery Plan Funds Stories

**CC:** Senator Rebecca Balint, Senate President Pro Tempore  
Senator Ann Cummings, Chair, Senate Committee on Finance  
Representative Jill Krowinski, Speaker, House of Representatives  
Representative Mary Hooper, Chair, House Committee on Appropriations  
Representative Janet Ancel, Chair, House Committee on Ways and Means  
Representative Patricia McCoy, House Minority Leader  
Senator Randy Brock, Senate Minority Leader  
Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office  
Stephanie Barrett, Associate Fiscal Officer, Joint Fiscal Office  
Adam Greshin, Commissioner, Department of Finance and Management  
Governor's Cabinet